SESSION 1951
HOUSE OF COMMONS

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND TELEGRAPH LINES

Chairman: L. O. BREITHAUPT, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 2

Bill No. 75 (Letter F of the Senate)
An Act to Incorporate Trans-Canada Pipe Lines Limited

WEDNESDAY, MARCH 7, 1951

WITNESSES:

Mr. Morris Natleson of Lehman Bros., Bankers, New York City, N.Y.
Mr. Frank A. Schultz, Vice-President, Canadian Delhi Oil Co., Calgary, Alberta.
Mr. W. E. Uren, Chairman, Dominion Coal Board, Ottawa.
Mr. W. J. Matthews, Director, Administration and Legal Services, Department of Transport, Ottawa.

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1951

MINUTES OF PROCEEDINGS

House of Commons, Room 430,
Wednesday, March 7, 1951.

The Standing Committee on Railways, Canals and Telegraph Lines met at eleven o'clock a.m. this day. Mr. L. O. Breithaupt, Chairman, presided.

Members present: Messrs. Applewhaite, Beyerstein, Bonnier, Cannon, Carter, Conacher, Dewar, Ferguson, Follwell, Garland, Gauthier *(Portneuf)*, Gillis, Green, Harkness, Harrison, Herridge, James, Lafontaine, Lennard, Macdonald *(Edmonton East)*, MacNaught, Maybank, McCulloch, Mott, Murphy, Murray *(Cariboo)*, Noseworthy, Riley, Rooney, Ross *(Hamilton East)*, Shaw, Smith *(Queens-Shelburne)*, Thomas, Thomson, Whiteside.

In attendance: Mr. John Ross Tolmie, Parliamentary Agent; Mr. George Shattuck, of H. K. Ferguson Company Ltd., Marketing Engineers, Washington, D.C.; Mr. Morris Natleson, of Lehman Brothers, Bankers, New York City, N.Y.; Mr. Frank A, Schultz, Vice-President, Canadian Delhi Oil Ltd., Calgary, Alberta; Mr. W. E. Uren, Chairman, Dominion Coal Board, Ottawa, Ontario; Mr. W. J. Matthews, Director, Administration and Legal Services, Department of Transport, Ottawa, Ontario.

The Committee resumed consideration of Bill No. 75, (Letter F of the Senate), An Act to Incorporate Trans-Canada Pipe Lines Limited.

Mr. Natleson's examination was continued.

Mr. Uren was called, examined and retired.

Mr. Matthews was called, examined and retired.

Mr. Schultz's examination was continued.

At 12.55 o'clock p.m. the Committee adjourned until Thursday, March 8, at eleven o'clock a.m.

R. J. GRATRIX
Committee Clerk.

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MINUTES OF EVIDENCE

House of Commons,
March 7, 1951.

The Standing Committee on Railways, Canals and Telegraphs met this day at 11.00 a.m. The Chairman, Mr. L. O. Breithaupt, presided.

The Chairman: Gentlemen, we have a quorum. We would like to get started as nearly on time as possible. Yesterday at the adjournment we were hearing the evidence of Mr. Natleson. Is it now the wish of the committee that we continue with him at the moment? He was speaking with respect to the financial end of the company. If there are no other suggestions, I would ask Mr. Natleson to come forward and to continue with his evidence; following which the members of the committee may ask him any questions in relation to the financing.

Mr. Morris Natleson, Lehman Brothers, recalled:

The Witness: Thank you, Mr. Chairman. Yesterday at the close of the session I was talking about prices and costs. I think it might be advisable for me to touch very briefly on the price and costs aspects to consumers.

The price of the gas in the first instance will be determined by the cost of bringing the gas to the consumer and by the price that is paid for the gas in Alberta.

The price will depend upon the following factors: In the first instance, how much is paid the producer of the gas in Alberta. That price is fixed by the province of Alberta. So what we shall do will be to get a long term commitment from the producer of the gas at a price permitted by the province. I would doubt very much if we were permitted to negotiate a price for the gas as such.

The second element in cost is the cost of the pipe line itself. In the overall cost of the pipe line there must be included the rate of interest that has to be paid on the money. That will determine the cost of transporting the gas through the pipe line. There are also operating expenses in running a pipe line which, as a rule—while they look big in amount—are small in relation to the amount of gas carried through.

So there are really three factors which will determine the price of gas, assuming that we carry a full load of gas through the pipe line; that is, our original cost of the gas, the cost of the pipe line, the cost of servicing and maintaining the pipe line, and the cost of paying the interest and other charges on the cost of the money.

In the first studies, the amount of cost that can be set will be comparatively small in relationship to the total carrying capacity of the line. The reason for that is that our gas will be coming into an area which until now has had comparatively high prices for gas and comparatively low prices for electric current and other forms of fuel, so that initially we would not expect that the full capacity of the line would be used.

In determining the price at which this gas will be sold in the first instance, we will in effect take the total cost of transporting the gas to the market and divide it by the amount of gas which we think we can sell. That will determine

the initial price and we expect that the initial price must be lower—even if only moderately lower—than the cost of competing forms of fuel.

Once that price has been set—and it must be lower than competitive prices—from then on the growth of the use of gas should be very rapid, if it is based upon all previous experience.

As the market for gas develops, based on competition and a promotional rate at which we are going to be able to deliver gas, then further decline in the cost of the gas to the consumer can take place.

So I think we can summarize it by saying that there will be a moderate reduction in price to the consumer initially with the opportunity of a very substantial reduction in price when the full potentialities of the line have been developed.

Now, before the consumer gets this gas, it must go through a public utility distribution system. The public utilities in the States and, I presume, your public utilities here are equally intelligent in carrying on their business. The practice has been for the rate charged by public utilities for gas which is used in excess of normal requirements to become lower. In other words, when the consumer buys more gas to use, let us say, for heating, space heating and water heating, such increase in sale of gas to the consumer results in giving him a rate which is lower than his present gas rate, so that for any gas he uses in excess of his present requirements, over and above them, his rate will become lower as pipe line costs and the cost of the gas delivered to the public utilities become lower.

I think I have covered that question understandably, Mr. Chairman.

The CHAIRMAN: Are there any questions?

Mr. HERRIDGE: Mr. Chairman, is it in order to ask the witness a few questions on the financial aspects of the company?

The CHAIRMAN: Yes.

By Mr. Herridge:

Q. I wonder if the witness could tell the committee why the share capital is stated to be $5 million?—A. Mr. Chairman, I think the initial share capital might be said to have no relationship to the ultimate share capital required. Five million dollars was selected for purely arbitrary reasons. It represents an amount which is believed to be adequate to cover the cost of operating this business until the pipe line starts to be built; but it has no relationship to what the capital will be in the future. It merely indicates that this is a substantial business.

Q. Where will these shares be floated? Will it be in New York or in Canada?—A. There will probably be bonds as well as capital stock. The bonds will probably be sold privately because that has been the practice in the past. The reason for it is that the terms and conditions of the bonds have to be negotiated with direct buyers. Those bonds will be sold in this country as well as in the United States, depending on the willingness of buyers to purchase them.

As to the share capital, it will be sold; we presume we will have a syndicate which will include leading houses in the United States as well as leading houses in Canada and that a substantial amount of the share capital will be made available to Canadians through Canadian major banking houses.

Q. Could the witness tell the committee the names of the brokers who would be used?—A. I would like to be excused from that question, Mr. Chairman. It could be very embarrassing if I should leave out one of my good friends through inadvertence.

Q. What commission is likely to be paid to the brokerage houses?—A. That obviously would depend on market conditions at the time. The specific price

at which the securities will be sold will, of course, determine the cost of selling at that time. So it is very difficult at this point to indicate what the cost of selling the share capital would be.

On the other hand, the cost of selling the bonds can be pretty well determined. I think it would represent a fraction of a cent provided it is done privately. But if it is done publicly, it might run higher than that.

In selling a large amount of common stock, the cost of selling capital stock might run in terms of percentage, I would say, under ten percent; but I would not like to be held to that. I do not know of any way I can determine at the moment what the cost might be.

Q. Could the witness tell the committee if the holders of the share capital, let us say, of this $5 million, as opposed to the $245 million of bonds and other securities—will they control the company?—A. There is some misapprehension. I do not think we can have debentures of $245 million. As I indicated before, share capital of $5 million represents the cost; but I cannot say what might be necessary before long-term financing can be arranged.

In the United States long-term financing has been done on a basis of between 75 and 80 per cent in bonds. That would mean something between $180 million and $200 million in funded debt; and the remaining $50 million would be in the form of capital stock, approximately, anywhere from $40 million to $60 million in the form of capital stock.

Q. Have you any idea what the par value of the debentures or the other securities would be when they are sold?—A. Debentures usually are attempted to be sold at par, at 100 per cent of par value. That is done by setting an interest rate which would make it worth while. So the price will be par; but the interest rate may vary, depending upon conditions at the particular time that the debentures come to be sold.

By Mr. Applewhaite:

Q. With respect to this capital, Mr. Chairman, it is not risk capital. Will it be paid up on an amortization basis, or will it just be a capital debt bearing interest?—A. The practice with respect to pipe line companies has been to provide for the paying out of the debentures over a period which represents the usual life of the field, or something less than the life of the field from which the natural gas is drawn. In this case I imagine that these debentures will be sold on a basis of an interest rate and an amortization rate which will retire all the bonds over a period of 20 to 25 years.

Q. Is it the intention of this company to buy and sell gas entirely, or is it the intention of the company to act as a common carrier, carrying other people's gas for a fee?—A. I cannot answer that. I do not know. I would doubt it, though.

By Mr. Conacher:

Q. What about this new ruling of the SEC in the State of New York, according to which Canadian capital or Canadian companies cannot raise money where there are any outstanding options? How could you get around that to bring in capital for common stock in the case of your company?—A. If you have no options it would bring it out from the SEC. But if the company's options are essential, we might be able to work it out with the SEC and to get their permission. I think we might be able to get the SEC to make a reasonable extension.

Q. The same difficulty arose in connection with companies just as big as your company, under that ruling of the SEC. It applied to Imperial Oil and everybody else.—A. I appreciate that. But our own experience is that upon reflection and upon proper representation, they have usually adjusted their point of view in the matter to conform to the realities of the situation; and

it is my impression that with respect to Canadian companies which are worthy, investors have been and will be exempted from the order.

Q. Ultimately the common stock would control this company, and when the bonded debt is paid off, control then comes into the hands of the common shareholders.—A. I think it is a matter of definition what you mean by "control". Actually, the common stock will control the company from the very moment that it is sold, because the common stock will elect the board of directors. The bonds will not have any hand in electing the directors.

Q. That is all I have, thank you.

By Mr. Harkness:

Q. Mr. Chairman, might I ask the witness who is expected to subscribe this first $5 million?—A. I believe it is the Delhi Oil Company Limited.

Mr. SCHULTZ: Might I hear the question again, if you please?

Mr. HARKNESS: Who is expected to subscribe this first $5 million? Is any of it to be sold to the public?

Mr. SCHULTZ: We expect that both Canadians and Americans will participate in this $5 million of shares from the very beginning. It will not be a situation where it will be subscribed privately by a group of Americans. We expect it will result in Canadians being placed on an equal basis from the very beginning.

Mr. HARKNESS: Then I take it that these shares will be placed in the hands of stock dealers and offered to the general public in the regular way?

Mr. SCHULTZ: Yes, sir, through regular channels.

Mr. NOSEWORTHY: Will this stock be sold before the company gets a permit to build its pipe line?

The CHAIRMAN: I wonder if we might confine our questions to the witness here and later on we can recall Mr. Schultz, possibly with respect to another matter. Would that be satisfactory? Are there any further questions?

The WITNESS: There will be no stock sold to the public through public distribution until the pipe line is ready to be built and until all the necessary permits and necessary contracts for gas are obtained at both ends. I do not think we can sell stock to the public out of the blue sky.

By Mr. Noseworthy:

Q. How much of this $5 million share capital is likely to be put up prior to receipt of the permit?—A. Whatever is to be put up will be put up privately. Obviously the intention is that whatever is needed to get the line to the stage where contracts can support it will be up to the Delhi Oil Company Limited.

Q. The point I have in mind is this: we may have a considerable number of these pipe line companies incorporated. It has been said on numerous occasions that probably not more than one will operate over any one given route. I am trying to find out just what is the advantage to a company to have, let us say, a part of $5 million invested before they know whether or not they are going to get a permit. I would like to know why so many of these companies are anxious to become incorporated? Just what advantage is there in becoming incorporated, in getting a company incorporated without knowing whether they can ever get a permit or not.—A. To answer that question would require an explanation of the capitalist system and what makes it work. That is what has developed America and I hope, will develop Canada,—the fact that people are willing to risk their own hard earned money to develop a new industry.

By Mr. Riley:

Q. I understood the witness to say that the initial $5 million capitalization was what was anticipated to take care of the requirements of the company up till the time construction was ready to begin. Is that right?—A. I must have misunderstood the first question but I understand it now. It is a five million share capitalization. The five million shares will ultimately represent the capital stock that is to be sold behind the bonds. The amount of money that is necessary to go into this picture in order to develop this company to the point of construction has no relationship to that five million shares. It will go in as either stock purchased to buy some of the shares or go in in the form of a loan, but there will be enough money put in this company to bring it to the point of starting construction, but those five million shares we are talking about are not $5 million. It is five million shares which will be sold at a price to yield whatever is necessary over and above the debt.

By Mr. Murphy:

Q. In your survey, do you expect to deliver gas, say, at Montreal or Toronto, as cheap as gas now being delivered in Canada through the other lines?—A. I did not know there was any natural gas being delivered by other lines. Do you mean manufactured gas?

Q. Gas coming in to western Ontario,—Texas gas.—A. I could not answer that question because I do not know the exact situation. I am not an expert gas man.

By Mr. Lennard:

Q. You did mention that this natural gas would be put on the market much cheaper than any existing fuels.—A. Cheaper than existing manufactured gas, or coal or oil.

Q. Yes, but we are getting gas from Texas through a pipe line laid through Windsor.

Mr. Murphy: I thought that when you were making your survey you would know pretty well the prices you could deliver gas for at Montreal, in view of the fact that there is now gas coming into Canada from the United States.

The Chairman: I imagine that is more of a technical question that one of the other witnesses could answer. Mr. Natleson is the banking connection.

Mr. Murphy: I assume, Mr. Chairman, that a banking firm would make a survey of general conditions as part of their own survey.

The Chairman: I do not think they would have the engineering details, they would probably look at the project from the financial side.

The Witness: We obviously have looked at the economics of the situation and the economics include the kind of question you ask, but I cannot answer at the moment. Unfortunately, in the first place, I do not know at what price this gas can be delivered from the States into that area you mentioned. I do not know what kind of contract they have. In the second place, we could not compete with that price in the initial stages of our gas line because that line is in a fully developed state and it is carrying gas at capacity. Now, eventually our price will compete with that price but I cannot say it would in the first year or the second year.

By Mr. Rooney:

Q. I suppose the bonds that you will issue would be first or second mortgage debenture bonds, so if you were not successful the control of the company would eventually go to the bondholders, and you people who are putting up the

initial money would lose out, is that not right?—A. That is the legal aspect of mortgage bonds. I think we will have the economics of this pretty well settled before we sell those bonds so that it will appear that the line can operate even at this moderate capacity and earn enough to pay interest and amortization on the bonds so they will not go into default.

Q. But if that failed, the bondholders would naturally take over?—A. If for any reason it failed the bondholders would have the right under Canadian law to take over the property but they may or may not avail themselves of that right.

Q. Therefore, the stockholders, you people who are putting up all this initial money, could be wiped out and the bondholders would get the whole thing?—A. Yes, sir.

Q. You are taking the chances?—A. The investors who put the capital stock in are always subordinate to the interests of the first mortgage bondholders.

By Mr. Riley:

Q. Would the trustee not be represented on the board of directors?—A. Which trustee, the trustee of the bonds?

Q. Yes.—A. If it is the practice in Canada to do so, yes. It is not the practice to do so in the United States but we will follow whatever the Canadian practice is.

The CHAIRMAN: Gentlemen, I believe we have covered this matter pretty well with Mr. Natleson's evidence of yesterday and today. I do not want to hurry things along but unless there are more questions I think perhaps we will call another witness. Thank you Mr. Natleson.

Yesterday, you will recall that Mr. Gillis brought up a question in connection with the economic aspects of the situation, particularly as related to the production of coal. It was suggested that we have Mr. Uren here. He is here this morning, and I was wondering if you wished to hear him at this time. Mr. Gillis perhaps might lead off with a question. We will call Mr. Uren to the head table. Mr. Gillis, you can proceed then and ask a question of the coal controller.

Mr. W. E. Uren, Chairman, Dominion Coal Board, called:

By Mr. Gillis:

Q. We coal men must stick together. What I had in mind, Mr. Uren, was how this particular project, when completed and in operation, is going to affect the coal industry of the maritime provinces. Now, it was brought to our attention yesterday that no survey for this particular natural gas project was made east of Montreal. Very few surveys are made east of Montreal! It struck me during the course of the discussion that if this natural gas project is developed and goes into the Montreal and Quebec market, which is one of the main markets for maritime coal, that it would affect in an adverse way the marketing of our coal, and not only Nova Scotia coal, I am also interested in American fuel coming into this country. I am a coal miner. They claim that when this project is completed they can undersell American anthracite in the Ontario and Quebec markets by at leasct one dollar a ton, and if and when this project is fully developed it will mean the coal miners in the United States will lose a large market in Canada. What I am particularly interested in is, whether you could give us some idea as to how this project is going to affect the Nova Scotia and New Brunswick industry in the market they have now in Quebec up to about 100 miles west of Montreal?—A. Well, the inclusion of any other form of fuel energy always seems to affect the consumption of coal. I mean

gas or liquid fuels, plus the hydro. This is borne out by the increased productivity that there is in the province of Quebec and the lower consumption of solid fuel. In other words, we know that production in the province of Quebec is at peaks in practically all areas, whereas consumption of coal has in total shown a decline in comparison with the increased production.

Over a period of the past five years, or more particularly since the war, the consumption of coal has gone down. Very fortunately, through the initiative of the coal industry and with the help of the government, the consumption of Canadian coal in the province of Quebec has gone up remarkably. I say remarkably. I would not look at totally how much damage it might do. The inclusion of gas, I would say, into the province of Quebec, would necessitate, where the Canadian market is concerned, a considerable change in their combustion facilities. In other words, not being a technologist, I would say that industrially they would have to make very considerable changes in their boilers. The price of the fuel, that is of gas, plus the assured continuity of service, might determine whether they would change their boilers to the burning of gas, or whether they would continue to burn coal. For the foreseeable future, as far as we can forecast at the present time, the maritime coal industry is in this position, that I do not think that gas would make a great deal of difference for a great number of years because we still have many pockets and gaps in the province of Quebec to fill with maritime coal of a suitable quality which is not available, and the market for which has not been undertaken by liquid fuels or the continued importation of American coals. Now, perhaps I am a little different from Mr. Gillis on this,—I am a hard rock miner. I consider that one of my duties on the coal board is to do everything possible in assisting the various coal operators to market Canadian coal, first of all to the exclusion of competitive solid fuels coming in from the United States, and secondly, in other forms of fuel energy that are available.

To summarize I would say, no, that the inclusion of gas over a period of the next three years, and I cannot forecast for too far ahead, would not be damaging or serious in any way to the coal mining industry of the maritimes.

Q. I do not anticipate it would myself for a few years, but I look upon the coal industry of Nova Scotia as the basic industry of that province and without it there is not anything else. These pipe lines are going to go into the large centres of the population, they are not going to fan out into the little pockets at all. Now, Quebec city and that area between Quebec city and Montreal up to about Coteau, is about the main market now for Nova Scotia coal in that province. Now, those pipe lines are definitely going into Montreal, where there is a large coal market?—A. Yes.

Q. And they are definitely going through to the city of Quebec?—A. Yes.

Q. Well, I am not opposing this project from the technological standpoint; it is progress; but it seems to me that I cannot see any hopes for putting cheaper fuel into that particular center without wiping out perhaps the economy of the part of the country on the other side of it. Perhaps the effect would not be immediate, but I am thinking of what will happen in the next five years or even within the next ten years. The Canadian government have a considerable investment in the mining industry of eastern Canada and at the present time they are financing by way of loans a large mechanization proposition. I just want to tell you, Mr. Uren, that I am glad you are because it is helping with the marketing of that coal and the mechanization of that industry. You are doing an excellent job. I would not like to see something happen now without due consideration being given to what the repercussions from it would be in the next five or ten years.

By Mr. Murray:

Q. Mr. Uren, do you consider that the coal industry of Canada is on an efficiency basis at the present time?—A. We are only talking at the present time about the eastern part of it, let us stay with the eastern part. They are not on an efficiency basis in eastern Canada, they are not on the efficiency basis that they are going to be on; and that is the reason for the expenditure of some $18 million to $20 million, in which the government participates to the extent of $7 million—and to a smaller extent with some of the other operators in eastern Canada. If you want to jump over to western Canada, they have been mechanizing for a long period—not only the war years, but since the war years—and if I might say so, Mr. Chairman, without any detraction from other individuals, efficiency in the west is of a higher degree than it is in the east. At the same time, mining conditions in the west are more favourable for it than are mining conditions in the east. But to bring them up to the efficiency they should have in comparison with their working conditions we have already spent a large amount of money; and we are in hopes, and we feel certain, that that expenditure of money over a period of five or six years in eastern Canada would improve the efficiency of their production. Perhaps I should explain what I mean by that; not only will they improve their production, but also the quality of the coal should improve. They will never become competitive in total amounts of production with their competitors in the United States, because their man-days are so much greater, and their seams are much easier to work; which means that even with a better class of mechanization it will be impossible to get production up to anything like a comparable basis with them; but we believe that they most certainly will improve and must improve their man-day production, and the cost of that day.

Q. Well, transportation would enter into that.—A. Transportation is one of the chief factors in the inability of the Maritime industry to further satisfy the Quebec market; and I stick to the Quebec market because a great deal of the coal, a good portion of the coal gets a subvention, and we do not intend to permit operators to move coal into areas on subvention that are more costly to serve than some of the areas they could satisfy. In other words, we move the coal to the closest point, cheapest to the taxpayer, and leave the more distant points to be served by imported fuels.

The CHAIRMAN: Gentlemen, this is all very interesting. I know we are all interested in this general discussion on coal, both in the east and the west, and we are interested in the general aspect of the points raised by Mr. Gillis.

By Mr. Gillis:

Q. Would you say, as a long range proposition, this project would not have a serious effect?—A. Not seriously.

Q. Not seriously?—A. If it would be interfering seriously with the operation in the Maritimes then we are wrong in what we think we are right in, in mechanizations and so on.

Q. That is what I thought.—A. The inference of the company is that we are wrong there.

Q. On the other hand, if it does not interfere and the market cannot absorb the gas, the pipe line company are making a bad investment.

By Mr. Murray:

Q. I understand that they are conveying coal in pipe lines down in the States.—A. Pittsburg Consolidated just started a very small experimental, pilot plant.

Q. Yes, four miles long.—A. Yes, and we have an opportunity of examining that.

By Mr. Gillis:

Q. Have you had any representations from the coal industry in Nova Scotia on this?—A. No.

Q. None whatever?—A. No.

Q. That is all I wanted to know, it would look then as though the pipe lines are very foolish to go into that market.

By Mr. Riley:

Q. What percentage of the output of New Brunswick coal would be brought into Quebec?—A. Did you say, New Brunswick coal?

Q. Yes.—A. In 1949 it was 2,851 tons, of the total production of approximately 500 thousand tons.

By Mr. Harkness:

Q. Mr. Uren, I am sure you know the situation in Alberta. The miners are very much concerned over the future of their industry, and of their jobs, as a result of the number of gas pipe lines that are coming into operation. Could you tell us anything about what effect those particular pipe lines, or any other pipe lines running east would be as far as the coal industry in Alberta is concerned?—A. This pipe line is, as I understand it, a trans-Canada pipe line?

Q. Yes.—A. Are they going to have offshoots any place along the line?

Q. Yes, they are reckoning on serving Moose Jaw, Regina, Portage, Brandon, Winnipeg and so on.

By Mr. Shaw:

Q. Mr. Chairman, may I ask Mr. Uren what he thinks on that?—A. Very serious, more serious that in the case of the Maritimes.

Q. Might I ask Mr. Uren another question: Do you think that industrialization resulting from gas export will result in power development from coal which would offset any anticipated disastrous effect of gas export from Alberta.—A. Well, that would be a useful thought, but I haven't given it any study.

Q. There appears to be a certain situation associated with that, that in view of the acute shortage of power in Alberta today and the relative cheapness of developing power to the use of low grade coal, that it would likely offset.—A. I do not know whether it would offset, but we are working through committees with the Deputy Minister of mines out there, Mr. Tanner, and there are discussions about the construction of power near Edmonton, where we have some of our cheapest holdings.

The CHAIRMAN: Are there any other questions?

Mr. GILLIS: I just want to ask Mr. Uren one more question.

The CHAIRMAN: All right, one more.

By Mr. Gillis:

Q. Have you any idea what percentage of Maritime coal was used for domestic purposes in the areas to be served by these pipe lines, as far east as Quebec city?—A. In the Quebec area—domestic—I could give you more on the industrial consumption than I can on the domestic. It is pretty difficult to get the domestic in percentages. I can get it for you Mr. Gillis, but I have the industrial right here.

Q. You do not think it would hurt us very much in the industrial field; but I am interested in the domestic.—A. I do not think it would hurt us very much in the industrial, but by far the highest percentage of consumption of Maritime coal is in the industrial field.

Q. It is in the industrial field?—A. Yes. And now, in the Quebec area the consumption of Canadian bituminous coal in 1950 was 42·8 per cent, and United States bituminous was 57·2 per cent. That is approximately the same as it was in 1944 in the Quebec area. In the Montreal area the consumption of Canadian coal in 1950 was 53 per cent, and United States was 47 per cent; and that compares with 7·3 per cent Canadian in 1944 and 92·7 per cent United States.

Q. Therefore, I'd say you are doing a good job mechanizing the mines.

By Mr. Murray:

Q. Is there not some sort of assistance given Canadian coal in the form of subvention?—A. Yes.

Q. And they have obtained that during the last three years?—A. Yes.

Q. What is the total sum?—A. I am sorry I haven't got this year's figure for you, because it has not been tabled yet.

Q. No.—A. In 1949-50 we paid out $3,918,000 for 2,386,000 tons of coal; in 1948-49, $1,679,000 for 1,783,000 tons of coal; in 1947-48, $764,000 for 616,000 tons of coal; and by 1946-47, $1,500,000 for 1,100,000 tons of coal; and in 1945-46, $1,897,000 for 1,163,000 tons. This year it will be along the lines of last year. We can't pay out any more because we can't move any more coal, we haven't got the transportation facilities with which to do it.

The CHAIRMAN: Mr. Harkness.

By Mr. Harkness:

Q. Mr. Uren, can you tell us anything about the possibility of gasification or liquefaction of this Alberta coal and its eventual transportation by pipe line to the east? In other words is there any possibility that the coal industry in Alberta might be able either to keep up or to go ahead?—A. Yes.

Q. Because of development of that kind? What can you tell us about that?—A. I cannot tell you very much because, as far as Canada is concerned our operations on gasification or hydrogenation have amounted more or less to looking or watching briefs on the tremendous experiments they are making in the United States.

George Hume is here. He is an expert in all these fields. I do not know whether he is here as a witness but he can certainly tell you more than I can. We are watching very closely what they are doing in the States. Also, as soon as they revamp the buildings out at the Fuels Division they will have a small pilot plant for hydrogenation, but there is nothing for gasification up to date.

Q. As far as the Alberta coal industry is concerned it would appear that the development of pipe lines must go on and there will be future difficulties along these lines.—A. I personally do not agree with that. I still think there will continue to be favourable markets for Alberta coal.

Q. However you think this pipe line development presents a very serious threat?—A. Very serious.

The CHAIRMAN: Well thank you, very much, Mr. Uren. We appreciate your handling of the situation. I think everybody is satisfied that we have got the answers to the questions.

Yesterday there were a few other answers asked and we promised to have Mr. Matthews from the Transport Board here. If you would care to come up Mr. Matthews I think there are a few questions which the members would like to clear up.

Mr. J. W. Matthews, General counsel, Board of Transport Commissioners for Canada, called:

The CHAIRMAN: Mr. Mott, would you like to ask your questions now?

By Mr. Mott:

Q. Mr. Matthews, last year during the discussion regarding pipe lines, both east and west from Alberta, it was mentioned that there would be an agreement between the United States and Canada that the United States would pipe gas into Ontario and Canada would pipe gas into the United States on the west coast. Now I want to ask this. According to the information that I have received since that time, I understand that, while there is a line from Detroit and Buffalo into Windsor and it was the intention to expand it—according to the information we had in the House last year—since that time the United States has put an embargo on gas coming into Canada. They will not allow gas to come into Canada that way?—A. Well, Mr. Chairman, I am sorry I do not know anything about that.

Q. You do not know that there is an embargo on gas coming from the United States into Canada?—A. No.

Q. You do not know if there is any agreement between Canada and the United States about gas coming into Canada?—A. I do not know that there is any agreement.

The CHAIRMAN: The matter has not come before the commissioners.

Mr. CONACHER: There is gas coming into Canada from the United States through Detroit. There is gas coming in at the present time, originating in Texas.

The WITNESS: I am sorry I have no information on it.

By Mr. Ferguson:

Q. Mr. Matthews, does your department set a maximum of profit that a pipe line company can make when they are applying for a charter?—A. No, sir.

Q. They can charge or write off the cost of this installation in ten years, we will say, and the user will have to pay for it. That may be a ridiculous figure but we have been told it would be written off in twenty-five years. As far as your department is concerned there is no restriction made of virtual necessity on the amount of profit allowed when the charter is applied for?—A. That is so. There is no restriction.

Q. In other words this could be written off by the cost charged to the consumer in ten years and, from then on, this pipe line would probably be the only method of transporting this valuable asset to the consumers of Canada. The owners could charge whatever they felt like according to their charter. There would be no supervision by your department?—A. There is no control by our department, that is true. There is the constitutional question which we went into very carefully at the time the pipe lines bill was before parliament. It appeared at that time, and I believe it is still the opinion of the Department of Justice, that the dominion has no jurisdiction over the prices charged to the consumers of gas. That matter is up to the provinces.

Q. The provinces have jurisdiction by way of the public utilities commissions, and they have supervision over the local distributors.—A. Yes.

Q. But have the provinces the right to interfere with a company operating under a dominion charter, and set a price at which the companies can sell to the local municipalities or the local operators? Must the provinces not say these people have a charter and they are permitted to charge whatever they can. The companies can say they only make a profit that will pay the stockholders 6 per cent, 7 per cent, or 8 per cent. It is like Bell Telephone. They say our cost is this much and therefore we are not robbers; we are making only a reasonable profit. Does not the province supervise only with respect to the charge by the actual retailer of the product?—A. I see what you mean but I think the province has jurisdiction over the price gas is sold for in the province.

Q. You just think so?—A. I think so.

Q. It might be possible that there is no supervision over what the pipe line companies can charge to the public utilities in the various provinces. The control would come over the local public utility in every province?—A. That might be but it would work back to the price the pipe line company charges the public utility.

Q. They could prove they were paying a certain figure and making a reasonable profit over that, but there is the possibility this pipe line could make a most unreasonable profit, something which is not permitted in the United States but which is permitted in Canada?—A. I think that would be within the control of the province.

Q. When they apply for a charter to the Security Exchange Commission in Washington they are asked what profit they are going to make, and they are not allowed more than a reasonable sum.

Mr. MURPHY: We have a commission in Ontario.

Mr. ROONEY: Competition would look after the prices.

Mr. MURPHY: They have to go before the commission to get the price established.

Mr. MOTT: The pipe line or the local authority?

Mr. MURPHY: The merchandiser; the gas company which we have in Ontario has its rates set by the gas controller.

Mr. MOTT: That is the retailer.

Mr. MURPHY: No, the price the company has to sell the gas at—that is my understanding.

Mr. MOTT: The retail company? I do not think there is any control, but I hope there will be.

Mr. MURPHY: There is control over the pipe line company that brings the gas in.

Mr. MOTT: Is there a restriction on the price they sell at?

Mr. MURPHY: They have to go before the board to have the price set. When there was a limitation on gas during the war, the matter that was mentioned a few moments ago, the question of the rise in price disturbed many people, and it had to go before the board at that time.

Mr. MOTT: I think it should be established by every member of this committee that pipe lines companies must have some control over the prices they can charge—control either by the provinces or the dominion. If not, people will think that they have been granted this charter, that it has been approved by the members of the House of Commons, that it has been gone into thoroughly and that everything is all right. Even though the local authority may be fairly well restricted to a certain figure, restricted by the commission in Ontario or in the other provinces, yet the pipe lines might make an excessive profit.

The CHAIRMAN: That is not within our jurisdiction. The Transport Commissioners have to pass on these various pipe lines after the province of Alberta gives them the right and the licence to go ahead. So, the matter is not within the jurisdiction of this committee.

Mr. MOTT: No, but as a committee we might say that it would not pass if the Transport Commissioners did not have some restriction. Unless that is so I do not think the members who are sent here to protect the public should pass the charter. It cannot go before the Board of Transport Commissioners unless it is passed by this committee.

I am not trying to delay this in any way, shape or form but I am looking to the future.

By Mr. Riley:

Q. Is it not so, Mr. Matthews, that the rates for services of public utilities are matters for the provinces to control?—A. Yes, that is so. The dominion has no jurisdiction over the prices charged.

Q. It is a matter for the public utility boards or such similar commissions as are set up in the provinces?—A. That is my opinion.

Q. That applies to telephone rates, gas, electricity, and all that sort of thing?

Mr. Green: No, it does not apply to telephone rates.

The Chairman: Mr. Green, do you wish to have the floor?

Mr. Green: It does not apply to telephone rates because, in the province of British Columbia our company is governed by the dominion.

The Witness: Yes, the Bell Telephone Company and the interprovincial telephone companies come under the Railway Act and they go before the board.

Mr. Rooney: Mr. Matthews, do you think that as far as price at which gas is sold is concerned, it would be guided by supply and demand. They can make no unreasonable profit in my opinion, because they would not get sales and other fuels would take their place. Does not this all come right down, as far as gas is concerned, to supply and demand?

The Witness: Yes, I suppose the competitive angle would have some bearing on it.

Mr. Mott: It does not have any bearing on it necessarily. If they can produce this gas in the city of Toronto at a certain figure, at a much lower figure than that for heating homes by coal, then they can step up their price to the retailer and simply say that it is still lower for the user. He may save a small fraction as against the cost of heating by coal, but it still may be an exhorbitant price to charge the retailer or distributor of this gas, which is God's gift to the people of Canada. Supply and demand may not have any bearing at all. Certainly they would not be crazy enough to make this large expenditure and charge prices so high that nobody would use the gas, but there is a possibility that they will charge prices that are ridiculous. This is a public utility and it is a question in the minds of our own people whether it should be controlled by the government and gas distributed to the people at actual cost.

The Witness: All I can say is that the dominion has not got jurisdiction. It is a matter for the provinces.

Mr. Herridge: I would like to ask this question. The people holding these interprovincial charters for the carrying of gas and oil are carriers. We have heard that in the committee before. They are common carriers of gas and oil. On what basis does the Transport Board distinguish between common carriers of gas and oil—interprovincially—and the common carriers on the railroads whose rates they control?

The Witness: That is a matter of carriage. There is a provision in the Pipe Lines Act that a carrier of oil may be declared to be a "common carrier" and then the rates of course have to go before the board—but that is for the carriage. Gas is in a different category because we are told by the American experts that it is impractical to call a carrier of gas a "common carrier". The gas gets all mixed up and there must be provision for storage. So, there is no provision in the Pipe Lines Act for carriers of gas to be declared "common carriers". There is a provision regulating common carriers of oil. The board has nothing to do, however, with the price fixed for the sale of gas.

Mr. Applewhaite: The Board of Transport Commissioners, and no other body of your department, has any authority at the present time to compel a company of this sort to act as a common carrier or to handle anyone's goods?

The Witness: That is so, as long as they stick to gas.

By Mr. Green:

Q. Let me get this clear on this matter of control of rates. An oil pipe line is a common carrier under the Pipe Lines Act?—A. It can be declared to be one.

Q. A gas pipe line is not?—A. That is so.

Q. There is provision in the Pipe Lines Act that the Board of Transport Commissioners may make orders or regulations with respect to all matters relating to traffic, tolls, or tariffs?—A. Yes.

Q. That applies only to oil?—A. That is right.

Q. There is no such provision with respect to gas?—A. That is right.

Q. But is it a fact this provision for setting a toll or tariff is only for the carrying of the oil and does not apply to the sale of the oil to a distributing company?—A. That is so, Mr. Green.

Mr. RILEY: Could we not have a witness brought here who would establish to our satisfaction who might have control of the rates from the source right through to the retailers in each of the provinces? That would clear this matter up.

Mr. LENNARD: That is a matter of economics. Competition with other fuels will regulate prices.

The CHAIRMAN: It could be done, Mr. Riley. What is the wish of the committee?

Mr. ROONEY: I think the last answer is correct; that competition with other fuels will set the price.

The CHAIRMAN: You can give us that at a later date, can you not?

By Mr. Shaw:

Q. Speaking of the common carrier angle with respect to this question, is it true that while the Board of Transport Commissioners has not been given the authority to declare any pipe line to be a common carrier as far as gas is concerned, that it could do so? In other words, that it does have the legal right to so declare it?—A. No, Mr. Chairman. The legislation does not cover it.

Q. I mean this: that while the legislation does not cover it, the authority to do so does rest with the department?—A. That is so.

The CHAIRMAN: Thank you very much, Mr. Matthews, for coming here today.

Returning now to the main subject of the bill, might I ask Mr. Tolmie if he has any other witnesses that he wishes to call? I notice that he has maps here for distribution.

Mr. TOLMIE: Yes, Mr. Chairman. Unless there is a witness you would like to have recalled for further questioning, I do not think there is anything more we wish to add. I might say that those maps were culled from the Oklahoma Engineering reports, and we could not get them photostated. They would not fit the photostating arrangements. However, there are 24 copies of them here.

There are two maps. One shows generally the route of the main transmission line. The other shows the projected gathering system in Alberta. But we must indicate to you that the gathering system projected is only tentative. It is based on the known gas field in Alberta. That gathering system will stretch out to whatever gas fields are discovered and available within economical reach of the pipe line, including the Peace River district.

The CHAIRMAN: I wonder if Mr. Schultz would come forward while the members have these maps before them. We promised to have the maps available here today. The members might want to ask Mr. Schultz a few questions.

Mr. Frank A. Schultz, recalled:

The CHAIRMAN: Is there anything you want to say about it, Mr. Schultz? Mr. Schultz has pointed out that the map is fairly self-explanatory; but if any of you are interested in particular phases of it which do not appear, or are interested in municipalities or constituencies—from the point of view of members of Parliament—which are not covered, now is the time to ask your questions.

By Mr. Whiteside:

Q. Mr. Chairman, I think it was mentioned yesterday that the pipe line would follow the main line of the Canadian Pacific generally. But I notice here that it follows a straight line directly east from Princess. Is it contemplated to put it through in a straight line or to follow the track through the prairie region?—A. No, sir. The idea is to build it as nearly to a straight line as possible in order to save in pipe costs and ditching costs. There may be some detours necessary, but primarily it would be just a straight line.

Q. What would be the approximate smallest concentration of population serviced? Suppose this line were adjacent, let us say, to a rural community or to a village of 50 or more. Would it be possible to serve them? Would it be feasible on an economical basis?—A. If there was a small community situated let us say within a half mile of the pipe line, we would endeavour to serve it. The principle is that a pipe line has to serve the most people possible, and we would endeavour to serve that small community.

Q. What would be the smallest number of persons who could be served economically in a distribution center by making a tap into your pipe line? Would it be 50 or more, or less than that number?—A. Mr. Chairman, that is a most difficult question to answer. It would depend entirely on the amount of gas to be consumed. If an industry be located, let us say, in a small community, other than the general residential requirements of that community, it would follow.

By Mr. Ferguson:

Q. Mr. Chaiman, what type of industry would use a considerable quantity of this gas, and how much would that industry have to use before it would be advisable to run a pipe line, let us say, 40 miles? If a community has, let us say, a population of 10,000, would it be possible with that population to run a distance of 30 miles from your main line for the purpose? Would it be profitable?—A. Certainly, if the industrial demand were large enough. Even 30 or 50 miles would make no difference.

Q. Would you say that a pipe line to a community of around 10,000 would be feasible?—A. Yes.

Q. What type of industry uses the largest quantity of your gas?—A. Practically any industry which is now using coal or other fuel could utilize natural gas. The important thing is that we would sell gas at a price under their present fuel costs and when we did that, they would want to convert. There is one exception, the steel industry, which has to have coal in order to reduce its iron ore.

Q. Well, consider a community of around 10,000 which is using, let us say, 8,000 tons of coal a year. Would it be profitable to strike off from your main line for a distance of 40 miles with a spur line in order to feed them?—A. Your question is too technical for me to answer. I have not got the data.

Q. But have you any idea?—A. No, sir. I do not have any rule of thumb to go by.

By Mr. Shaw:

Q. Mr. Chairman, might I ask who will have the final say as to whether or not a given community shall or shall not be supplied with gas? The company may assert that while it is economically feasible, there is just not a wide enough margin of profit to lead up to supplying that community. Will the company have the final say as to whether that community be served, or will the Board of Transport Commissioners or some other authority determine it?—A. Mr. Chairman, I think that is a legal question and I am sorry, but I cannot answer it.

Q. I think it is a question which may come up all along this line.—A. I think we will be glad to serve any community we can serve economically.

Q. But it would be your definition of "economically".—A. We will have a transmission company which is a service company, to serve the most people. We would gladly bend over backwards to serve the smaller communities, but we could not do it at a loss.

Q. I realize that.—A. To do so would place an extra increment of cost upon the gas supplied to other communities. It obviously would not be fair.

Q. Would you supply gas to any locality which might determine that it is economically feasible to do so?—A. Yes, sir. If some community should desire natural gas and should lay a lateral line to our main line, we would certainly supply them with the gas they needed.

By Mr. Murray:

Q. I notice that your map does not show the Peace River country. Have you any idea of the potentialities in the Peace River country at this time? Would there be, let us say, eight million feet of gas in reserve there?—A. Our thinking at this time on the Peace River reserves is that there are possibly a trillion and a half to two trillion feet available in the Peace River country.

Q. That is, in British Columbia and adjacent in Alberta—A. Yes, sir.

Q. That would be enough, in itself, to supply a pipe line?—A. We think that the Peace River reserves will increase in importance; and at such time as we can justify an additional two or three hundred miles of gathering system to go up there and get it, we will be prepared to lay the line and go up and get the gas from any of the fields now discovered or to be discovered in the future.

Mr. MURRAY: Thank you!

By Mr. MacNaught:

Q. With respect to the question asked just now by Mr. Shaw, do you think it would be largely left to the discretion of local public utility boards or to your company to supply gas to certain areas?—A. I do not know enough about provincial law to answer your question. I would just say that if we were directed to sell gas to a community, we would certainly do so.

The CHAIRMAN: I imagine that Mr. Shaw was referring to communities which were so small that they did not have any public utility commission.

Mr. SHAW: But you would have your provincial board. However, I doubt if they would have the authority to supply any given community. I might say that one of the complaints in my province now is that some communities claim that they should be served and are not being served today. In some cases companies have said: you set up your local company and we will supply you with the gas. But many of these small communities do not have the capital available.

By Mr. Herridge:

Q. I think that Mr. Shaw's point is very well taken. We have railroads in Canada running branch lines in services at a loss because they are public

service corporations and they have to give those services even though they are operated at a loss, and that loss is spread over the rest of the population of Canada. Then, take the case of telephone companies. There are many small places with telephone companies operating although they do so at a loss to the companies concerned. Then again, take the case of the Power Commission of British Columbia. It serves many communities at a loss, but the loss is carried by the community as a whole.

In view of what the witness has said, could we expect a small community to be served at a loss? To do so would mean increasing the rates generally. But in view of this being an almost national public service organization all the people along the line could be charged with the cost which would be very small in relation to the total cost of operation, because the communities are small—I mean the operation of all this service by the company?—A. The desire of the transmission company is to sell the maximum amount of gas. If a small community can be serviced, we would want, and we would need to do it. The more gas that we can put through the line, the smaller the differential becomes between the cost of presently used fuels and the cost that we have generally. In short, if there be a small community, we would be happy to serve it.

By Mr. Ferguson:

Q. You mean that you would be happy to serve a community and that you would bend back to serve that community?—A. Exactly, sir.

Q. Mr. Chairman, this is a private company which is owned by stockholders. I have noticed that stockholders will bend back just about as far as necessary in order to sell their product. But stockholders do not exhibit much in the way of generosity. Personally, I do not appreciate any company in which I own stock being overly generous. In short, I want the profits. We are considering the granting of a charter to a national venture. I do not own any stock in it and probably I never shall unless it is going to have a free hand with tremendous profits, in which case I will jump in with the rest of them. My point is that a pipe line company will bend back as far as is necessary to sell their product over present methods of heating and cooking.—A. The pipe line has to sell its gas and the only way it can sell its gas is to bring its price progressively downward to a point where more people will want to use it. If we over-price our gas, no one will want to buy it. They will prefer to buy fuel oil.

Q. Yes, but this country is very cold and it is not optional whether you heat your house or not. It is compulsory to do so. Therefore, you should have no difficulty in selling gas if you can undersell the present methods of heating.

By Mr. Riley:

Q. I would like to ask the witness this: would not the service to the smaller communities depend upon convenience and necessity as the development progresses, as is the case with all other public utilities?—A. That is true. The only yardstick we know is to measure it on an economic basis. If the community is large enough and close enough to the pipe line we will be happy to serve it. If the community is small and far removed from the pipe line where it could be served only at a loss, then our inclination would be that we could not serve that community.

Q. And you would be governed in that respect by the Board of Transport Commissioners, would you not?—A. By whatever agency had the jurisdiction.

By Mr. McCulloch:

Q. Would consumers off the route of your main pipe line have to pay a higher rate for their gas than those on the main line? In other words, consumers far removed would not be able to get gas at the same price as in a large city?—

A. It would depend. The communities that are nearer the Alberta fields, generally speaking, would be served at a lower cost than the communities in Ontario.

Q. But where your lines go into a small community your prices would have to be a little higher?—A. Yes, sir. That is true.

By Mr. Noseworthy:

Q. I would like to follow the objection raised by Mr. Ferguson. This charter, we will say, is granted but no provision is contained in the charter regarding rates. Let us assume that this company builds the line from Alberta to Montreal. Ten years from now industries along that line, as well as domestic consumers, have been converted to the use of natural gas. Nobody has any authority to regulate those rates except the provinces, and the position is, will the provinces be in a position to say to this gas company, you are making an exorbitant profit. When the major part of industry and domestic consumers have already converted to the use of natural gas, this company will have a monopoly on their supply. It seems to me there should be, before that charter is granted, some clause in it saying that that company must limit their profit to a certain amount. I can see where the province is going to be up against a monopoly, and completely helpless as far as rates are concerned. Installations will have been made and prices hiked up to just as much as the traffic will bear, and we will find we are completely at the mercy of that monopoly.

Mr. FERGUSON: I do not see that the provinces should have the jurisdiction to say what prices this company should charge.

The CHAIRMAN: There is no use getting into that discussion now.

Mr. FERGUSON: If they did have that right, one province would decide that the price was too high and would force the company to sell gas at another figure which might be so low that the company could not distribute it to the other provinces who felt the price was right. I think you will find that a province has not the right to tap into a natural gas pipe line and say, you can deliver gas in this province only at a certain figure. As I said, this might have the effect of shutting off the supply of gas to the other provinces. I believe the only body which has any jurisdiction over the price you can charge is the dominion government, not the provincial governments.

The CHAIRMAN: Mr. Schultz is not in a position to answer that.

By Mr. Whiteside:

Q. In referring to this gathering system here, the line is taken off at Princess. Now, you said yesterday that you were carrying out some work on some wildcat discoveries in Alberta. Is there any chance that the main lead might be changed from Princess to some other portion of the field?—A. Well, it is entirely possible it could adjust slightly. If new fields were found in this general Princess area, of continuing and substantial quantity of gas, then the gathering system could change in some general aspect.

By Mr. Murphy:

Q. I notice in this memorandum that was sent around to us, and also from your map which, by the way, shows a red line going from Toronto to Stratford, that you hope, you expect, to ship gas to the old gas and oil fields in western Ontario as your storage. Can you tell me what fields you expect to store gas in during the summer months in western Ontario?—A. At the present time we cannot. We have had a consulting geologist evaluating some of the old fields in southern Ontario. We know that there are numerous fields that are capable of gas storage but we have made no attempt to purchase any of these fields as we feel that is something that should be done after the pipe line is in operation.

Q. Do you know anything of the company that is now bringing gas into Ontario?—A. Generally, yes.

Q. Have you any relationship with that company?—A. No.

Q. None, whatsoever?—A. No.

Q. Just one more question which I wanted to ask a while ago. In view of your coming into this area I assume that someone in your organization knows the cost of gas that is coming into Ontario?—A. We know generally; specifically, we do not. We have read the newspapers to the effect that Tennessee has proposed to supply gas in the southern part of Ontario. One aspect to that, we think, is very important. The gas that will come into southern Ontario from the United States has been classified as dump gas, which is gas that will be delivered during the summer months.

Q. I am talking about gas that is coming in now. Have you any idea what the price of that is?—A. Just very generally. We feel that at the beginning of our project in its first stages, the gas that we will deliver to this area is within a competing range with their costs, within a general range. We do feel that this gas that is coming up from the United States is subject to the jurisdiction of the federal power commission which by precedent has said that it will always be a dump load proposition, meaning that when there is demand for it in the United States it will be cut off from Canadian users. On the other hand, our line that we propose will supply an increasingly large amount of gas year after year to this eastern market. In the one case as the population in the United States grows the gas that is imported from the United States now will gradually diminish, whereas our project will increase its supply through the years.

Q. Is there any territory other than the thickly populated cities like Toronto and Montreal where you might have storage comparable to what you have in southern Ontario?—A. There are some artificial gas storage facilities, steel storage, around the country, but they are of minor importance.

Q. In your own experience, have you stored gas in other gas fields previously?—A. Yes, sir.

Q. And you did not lose much gas?—A. If you can count on a 15 per cent factor you are safe. In other words, you can afford to lose 15 per cent and still be in good shape.

By Mr. Conacher:

Q. This company will have no monopoly on serving the small communities referred to. For instance, in Vermilion, Alberta, there is a small company serving the community from the gas fields there, and as independents drill in places surrounding these areas,—Vegreville is another, I think,—in those areas that gas will be used for local consumption independent of any of these broader pipe lines. Further, on the question of price a question that seems to be worrying the committee, when they get down into Ontario they will run into competition with, for instance, Union Gas, and they will have to undersell them or sell with them. As far as charging an exorbitant profit is concerned Union Gas have been in business for years, getting their gas in Ontario, so this concern, bringing gas over the long distance they do, in all likelihood it will cost them more to produce gas in Ontario than it does Union Gas, as far as price in concerned. I do not think the committee should tie anybody's hand in connection with making a fair profit in producing something that is going to be so valuable to all of Canada. I may say further that we do not have all the gas in the world in Canada; the Montana and Texas fields in one day could produce more gas than we all could use and unless these opportunities are taken advantage of while people are putting up the capital to bring that product down here, there is a possibility that Americans will run pipe lines up to our borders and make it so attractive that our own gas production would be lost to this country.

By Mr. Harkness:

Q. In connection with this gas gathering system that you provided us with a map of, Mr. Schultz, is that an integral part of your estimated $250 million construction or do you propose to have a separate Alberta charter for this gas gathering system, a separate company?—A. We consider the entire project as a single unit and the reason for it is that the gas has to be purchased and gathered at the cheapest possible price and if the gathering were done by a separate unit it would be entitled to some increment in profit on the gathering. We do not propose that the gathering and the main transmission line will be operated other than as a single unit with one overhead.

Q. You probably know that there are one or two other projected gas gathering systems in Alberta. In the event that one of these companies gets a charter from the Alberta government and builds the gas gathering system, are you then prepared to buy your gas from it and not build it yourself?—A. If someone else had a charter we would be forced to buy from them. We appreciate the Alberta commission has control over the gathering system, but we think that if someone else owned the gathering system it would mean higher prices.

Q. In other words, you are prepared, even if you do not get the right to build this gathering system, to go ahead and build a transmission line to the east just the same?—A. We want to build a gathering system, because we have to supply the gas at the cheapest cost we can.

Q. But what I am getting at is this: If you do not get the right to build a gathering system are you still prepared to go ahead with the transmission system?—A. It would not kill the project. We just know the gathering system has to be an integral part of the project to save that additional increment of cost.

Q. In other words, the proposition would be much more attractive to you if you were able to have a complete gathering system of your own throughout that country?—A. Yes sir, for the very reason that the cheaper we can buy the gas and the cheaper we can sell the gas in the east the more customers we are going to have, and the more customers we have the more gas we are going to sell and the better off we will be.

Q. Where are you building your own gas lines about which you spoke yesterday?—A. In this general Cessford area, roughly 32·4 miles north of Princess. We have three fields southwest of the Cessford area—

The CHAIRMAN: Would you mind raising your voice a little? I do not think the people down here can hear the conversation at all.

The WITNESS: I will start over. We have three fields in the general Cessford area shown north of the Princess; and approximately 12-14 miles, some such distance as that, southwest of the Cessford area we have a field that we call the Countess area. We own an area here in the general Cessford field in which we have two completed wells and one now drilling. We have the Picardville field and the Cardiff field—that is shown at the north end of the map. We own the Picardville field. We have a field called the Royal Park, in the general area east of Morinville. We are now drilling a new discovery that is approximately 12 miles south of the Castor area; and we have discovered, within the last sixty days, a field just north of Castor, one which we call the Link Lake area, a new field.

By Mr. Harkness:

Q. Where do you anticipate getting the major portion of your gas from?—A. Well, I gave you those figures. We estimate that the quantity that would be available from, or that we could produce from our own fields would be sufficient to supply the 365 million.

Q. The biggest field, of course, is this one down here at Pincher Creek?—A. Yes sir, that is right. We have tested, but we are reserving the Pincher Creek field. The corporation which owns that field thought they could deliver 165 million feet of sour gas per day; that with 125 million feet from the other pipe line would give us our 450 million.

Q. I see that you have a line running from the Pendant D'Oreille right down to the southern border of the province. Do you consider that that field is essential to your project?—A. We are carrying 48 million feet of gas that may be used somewhere else. That is just a small part out of a flow of 365 million feet. It may be that we will need the Countess area, then we have the district up here known as Link Lake.

Q. The reason I am asking these questions is that there is now before parliament the bill relating to another company which proposes to take gas from that field into Montana for use by the Anaconda Copper Company.—A. Yes sir.

Q. And that is why I was wondering whether you considered this field essential to your project?—A. We projected a lateral of some 27 miles down through—27 plus 14—and there are some wells, some fields in there that we anticipate being able to buy.

Q. Would you anticipate any difficulty with the gas of the field owned by the Calgary Gas Company, which is not presently active, and which is only about 14 miles from the Pendant D'Oreille field?—A. Well, as far as we are able to tell the Alberta gas company have not made any effort to produce a gas. I understand it is shut down at the present time; therefore, it is a prospective gas purchasing contract for us.

Q. Perhaps I should clarify what I was saying a little more; you would like to have this field which is only 40 miles from the border, the Pendant D'Oreille, but I take it that you do not consider it essential?—A. I would say that other than Pincher Creek, that no single field is an indispensible field if we can make up the amount of gas from reserves that we have in this system, or from reserves still to be discovered.

Q. And you must have Pincher Creek in order to produce the volume you want.—A. Yes.

By Mr. Murphy:

Q. You said that you would get so many tons of sulphur?—A. Yes, in the case of one of the fields there the chemical analysis is approximately 15 per cent acid gas; 8 per cent sulphur sulphide and 10 per cent sulphur oxide.

Q. Would it be part of your operation to obtain sulphur?—A. That is a matter of negotiation. We could put a plant there to fix the sulphur, the sulphide will be fixed, and produce an amount of sulphur which will add materially to Canada's natural resources; I would say, to the extent of 350 tons a day over the period of the useful life of the line, a matter of 25 or 30 years; and it is our understanding that that represents about a quarter of the total requirements at the present time for sulphur in all of Canada. That would be a very useful contribution to our national economy.

The CHAIRMAN: Yes, there is a great shortage of sulphur.

By Mr. Murphy:

Q. I wonder if you could tell us in the light of your experience what it would cost you to produce sulphur?—A. Well, the actual fixing of the sulphur is not a very expensive proposition. We anticipate being able to fix this sulphur in a plant which would cost less than a million dollars.

Q. You would build a factory for the purpose?—A. Yes sir. Considerably less than a million dollars I would say. The big item, of course, is in the plant;

the overhead for operating the plant is not very great, it would only require three or four men to operate it.

Q. Would you be in a position to give us any idea of what the cost would be per ton?—A. I could obtain the figures for you. We have fields in northwestern Mexico with respect to which we have worked out very exact cost information; but I regret that, from memory, I would not be able to tell you. I would be glad to get it for you.

Q. I feel that it would be good for us to have that information; no doubt, the defence department people would be very interested in having it.—A.And, of course, the pulp and paper companies are very greatly interested in an improved supply of sulphur for that industry.

By Mr. Applewhaite:

Q. Is it possible—and has any consideration been given to this—that your company might carry gas for other companies?—A. No, sir; by its very nature a gas pipe line could not operate as a common carrier. What I mean by that is this, that we would be required, prior to financing this line, to obtain firm contracts with respect to the operations, at both ends of the line. You will have to have firm contracts for the sale of your product, as well as for its supply. There is no capacity left for the line to act as a common carrier.

Mr. MURPHY: I would just like to follow up one point. Mr. Schultz said a moment ago that he would get us certain figures in respect to this matter of the production of sulphur. I suggest, Mr. Chairman, that when he does that he gets a copy of the material on sulphur production for the use of each member of the committee.

The CHAIRMAN: Yes, that would be a good idea, if you can do that, Mr. Schultz.

The WITNESS: You are speaking of the development in western Canada?

Mr. MURPHY: Yes.

By Mr. Shaw:

Q. Earlier today Mr. Conacher referred to the fact that a number of the larger industries in Ontario are now being supplied with gas from local wells, and that being the case they obviously would get the supply at a more attractive rate than it would be possible for them to get gas from Alberta; and I was wondering how that would apply to communities which might be served by this new pipe line. Would the witness indicate whether his company will or will not have the final say as to which communities are to be served? Surely, his answer to that is something which you as a company would have to know. I think we should have that information. The point I am interested in there, Mr. Chairman, is this. A small community such as the one in which I live, which has a population of 1,300, is fairly surrounded by pipe lines and yet it is possible that we might be without gas.—A. Well, our attitude with regards to supplying all communities is that I think it has been demonstrated already that we are competitive, and the whole of our effort would be directed toward supplying an adequate service. You see, our very existence depends on the kind and quantity of service we are able to give.

Q.. But your company has the right to determine that, hasn't it?—A. Well, I think there is a legal aspect to it.

The CHAIRMAN: Well, gentlemen, it is getting close to the time for adjournment.

Mr. NOSEWORTHY: Before we adjourn, Mr. Chairman, I think we should have some information on the constitutional provisions which render it impossible for a pipe line company of this kind to be classified as a common carrier. As I see it,

they should be in exactly the same position as was the oil pipe line company whose bill was before parliament last year, and who come under the jurisdiction and control of a federal authority. Personally, I do not see why we should throw that responsibility back on the provinces in a case like this.

The CHAIRMAN: Well, Mr. Noseworthy, I do not think there is anything that this committee can do about it. I mean, that this committee has no direction, no reference, of that kind. We can get the information, certainly; but that won't change the law.

Mr. NOSEWORTHY: I suggest that we should review that point and prepare a recommendation on it.

The CHAIRMAN: We will make a note of that.

Mr. HARKNESS: I do not think a gas pipe line would be in the same position. In the case of the oil pipe line company you have a firm contract to deliver specific volumes of commodities.

Mr. GREEN: Is there not some difference in carrying oil? They can block out a certain amount of oil which is to be delivered to or for another company.

Mr. WHITESIDE: That is right, and there is another reason too; this oil is delivered to the refinery and is refined, and the oil pipe line company delivers a specified amount, let us say ten thousand gallons to a certain customer. In that way, the situation is different.

Mr. MURPHY: Yes, and gas has a lot of air in it.

The CHAIRMAN: I do not know just how soon we can come to a consideration of the bill itself, but I think we should get there as soon as we can. Shall the committee sit again tomorrow at 11 o'clock?

Some hon. MEMBERS: Agreed.

The committee adjourned to meet again tomorrow, March 8, 1951, at 11 o'clock a.m.